

Minutes of the Meeting of the College Savings Program Board

Held in the State Treasurer's Conference Room, Fifth Floor
1 South Pinckney Street
Madison, Wisconsin

June 2, 2004
1:00 p.m.

MEMBERS PRESENT: *Johnson, Wolff, Plale, Voight, Darling, Durcan, Oemichen, Reid, Mari McCarty for Wegenke*

MEMBERS PRESENT by Conference Phone: *Clumpner*

MEMBERS ABSENT: *Adamski*

OTHERS PRESENT: Marty *Olle* and Rich *Janosik*, EDVEST Program; Terry Rhodes, Legislative Fiscal Bureau; Sarah Henriksen, Strong Funds; Andrew Wronski, Foley & Lardner; Matt Lobas and Lanny Little, Wells Fargo; Scott Stevens, Zeigler Cos.; JR Ross, Associated Press; Avi Lank, Milwaukee Journal-Sentinel; and other members of the public.

I. Call to Order – The meeting was called to order at approximately 1:12 p.m. by Board Chair *Darling*.

II. Roll Call – See above. *Darling* made opening comments regarding the program's significant progress since adding additional investment options in December 2003.

III. Approval of Agenda – *Voight* moved and *Durcan* seconded approval of the agenda as posted and distributed. Motion passed by voice vote without objection.

IV. Public Presentations – Deferred, see below.

V. Approval of Minutes – *Wolff* moved and *Voight* seconded a motion to approve the minutes of the February 19, 2004 meeting of the Board. Motion passed on a voice vote.

VI. Administrative Reports

A. Board Chair Comments -- *Darling* deferred to Treasurer *Voight* for comments.

B. State Treasurer Comments – *Voight* echoed the Chair's opening comments, and said that the announced sale of Strong was exciting news. He mentioned that the House (Congress) was holding a hearing today to review the oversight of 529 plans, and the benefits they have given to parents and children trying to save for higher education.

C. Program Director Comments --- *Olle* mentioned that summary statistics for the program are distributed to the Board monthly. May activity and revenue figures will be distributed about June 10, and he re-capped the EdVest and tomorrow's

scholar™ April data. He reminded the Board that the tomorrow's scholar offerings are now competing in the American Express system with eight other state 529 programs that AMEX financial advisors can now sell to their clients. This is producing small reductions each month in the number of active TS accounts. *Olle* gave a summary of program expenditures to date in the fiscal year and mentioned recent Legislative Joint Finance Committee action allowing the program to "re-spend" monies recovered from Strong for the Board's legal expenses. Additional expenditure authority for legal and several other expenses for fiscal year 2004-2005 will be requested from the Committee in September, and a 2005-2007 biennial budget request will be submitted to the Department of Administration in September.

Draft letters requesting marketing monies from the additional vendors added in December are on hold pending decisions on the sale of Strong. A survey will be posted on the website asking responders what additional investment options they might be interested in. It has been announced that Vanguard Wellington is being investigated by regulatory groups, but no details were available as of the board meeting date. *Wolff* asked a question about Congressman Oxley's letter to the SEC regarding 529 programs. He asked about the status of the SEC's response to criticisms reflected in that letter. *Voight* mentioned that today's testimony at the subcommittee level was in response. *McCarty* mentioned that Rolf Wegenke's concern is that all investors be held harmless regarding any trading irregularities by Strong. *Darling* assured board members that the goal from last September has been just that.

VII. Old Business

A. Status of RFP for Investment Performance Monitoring -- *Janosik* reported that responses to the RFP are due June 25 and that a review team has been assembled to review and rate them. A contract may be in place by the next board meeting. It is expected that the consultant will provide ongoing independent evaluation of all of the program's investment portfolios.

VIII. New Business

A. Summary of Strong Settlement With Regulatory Agencies -- *Olle* summarized details of the settlement as follows. Richard Strong has been banned from the securities industry for life. Changes to the structure of the Strong board were mandated. A full-time compliance officer reporting to an independent executive is required. Future Strong fees must be comparable to those of other mutual fund companies, and an independent annual fee evaluation must be published on the Strong website and distributed with prospectuses. Beginning in the third quarter of 2004, all fees and costs must be shown on individual investor statements. *Olle* stated that the type of expanded disclosure required in the settlement is likely to be required of all mutual funds in the future.

Richard Strong will be paying a \$60 million fine and his company will be paying \$80 million. Strong management fees will also be reduced by at least 6% over a period of five years which should produce savings to investors of at least \$35 million. None of the settlement penalties or fees will be paid directly or indirectly by any of the Strong mutual funds. According to the announced settlement, an independent outside consultant will be hired to create a distribution plan for the actual amount due to investors, and the board's counsel will participate in the resolution of the settlement funds to EdVest investors. *Olle* then asked Mr. Wronski of Foley & Lardner to

comment on the settlement. Mr. Wronski stated that the salient point of the settlement is that all of the fines and restitution amounts have been designated for investor restitution. He presumes that the distribution consultant will put into place a process by which all EdVest investors will have input into that process through the Board and its counsel, protecting their interests. *Henriksen* said that 50 percent of the settlement has been designated for investor restitution, the other half is being called civil penalties, but indications are that the second half is also going to be used for investor restitution.

Wolff addressed a question to *Wronski* regarding recovering legal fees of the Board going forward. He asked Mr. Wronski if there will be an opportunity to continue to have *Foley's* fees reimbursed, or whether the settlement will prevent the program from obtaining reimbursement for ongoing and future legal fees. *Wronski* replied that Strong has previously committed to reimburse the Board for certain of its legal fees and his view was that remaining or future legal fee reimbursement for similar expenses should also be sought. The civil class action litigation will potentially diminish by the settlement, but legal costs incurred on behalf of EdVest customer interests should be sought from Strong or from the settlement amounts.

B. Update on Potential Sale of Strong to Wells Fargo -- Chair *Darling* welcomed Lanny Little, Regional President of Wells Fargo Bank and Matt Lobas, SVP of Wells Fargo Funds to address the Board on the Wells acquisition announced the previous Wednesday. Lobas and Little made a presentation regarding Wells Fargo's history, presence in Wisconsin, plans for the acquisition of Strong Fund assets, educational commitment, distribution/marketing plans and timeline for the acquisition. They stated that Wells has a definite interest in working with the State of Wisconsin to continue the EdVest and tomorrow's scholar programs. Final action on the Strong purchase is expected by year-end 2004 by Wells Fargo. Employee/job retention after the completion is largely uncertain at this time. They answered questions directed by Board members.

As for the State's decision-making process, further discussion among the board members clarified that the Department of Administration will decide whether to approve assignment of the current contract with Strong to new owner Wells Fargo, or whether to re-bid the contract. Board members and staff offered their assistance to DOA, which hopes to make a decision within several months.

C. Consideration of Tomorrow's Scholar Class-A Share Fee Reduction --

Henriksen briefly discussed a proposal for adopting a lower fee structure for the American Express distribution of "A" shares of the tomorrow's scholar TM portion of the program. The principal reasons are to make the program consistent with other 529 products in terms of advisor fees now offered by AMEX financial advisors, and to make the program's fee structure internally consistent. At the Chair's request, she also discussed materials distributed previously about several management models for 529 programs, and explained that tomorrow's scholar represents the earliest multi-managed structure in the country. *Darling* moved, and *Wolff* seconded a motion to reduce the Tomorrow's Scholar class A shares up-front commission from 5.5% to 3.5% effective June 16, 2004. Motion passed by unanimous voice vote. *Wolff* requested that AMEX track the effect of the passage of this motion in terms of sales of class A shares.

D. 2004 First Quarter Investment Performance Review -- *Janosik* reviewed general equity market performance and the interest rate environment in the first quarter of 2004, as well as April and May market events. *Henriksen* presented materials reviewing each individual EdVest portfolio and the Stable Value fund in Q1

2004 in terms of year-to-date, 1-year and since inception performance measures. A summary page with benchmark comparisons was discussed, as well as the results of a conference call with Dwight Asset Management on the performance of the stable value portfolio. *Johnson* commented that the Board needs to continue to watch for any underperformance of the programs portfolios.

E. Summary of Current Issues Affecting “529 Programs” Nationally -- *Olle* commented on the growth of 529’s, regulatory issues and increased oversight and scrutiny of the industry, especially in light of the mutual fund trading scandals that came to light late last year. He summarized the themes of the College Savings Plan Network annual conference held the previous week, including that 529 programs are trying to balance the sometimes disparate interests of state administrators, private sector vendor partners, individual investors, regulators and federal legislative oversight. *Janosik* echoed and expanded on these themes, discussing the specific Congressional and regulatory oversight activities that are underway, and what the staff learned from specific presentations at the conference. *Janosik* mentioned that CSPN voluntary disclosure guidelines were adopted by the national association as a first response of the state administrators, to provide a level of disclosure “best practice” for all 529 state programs.

IX. Announcements — *Wolff* mentioned that a survey will be available in a few days on the edvest.com and Wisconsin.gov websites regarding the need for and preferences for new investment options.

X. Adjournment -- *Darling* entertained a motion to adjourn the meeting. It passed by voice vote and the meeting adjourned at approximately 2:50 p.m.